

9

Banking Procedures and Accounting for Cash

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LEARNINGS OUTCOMES

After reading this chapter, you should be able to:

- establish and replenish a petty cash fund
- reconcile a general bank account
- reconcile a trust bank account

Petty Cash

Because paying for small purchases by cheque can be inconvenient and impractical, most businesses establish a fund for payment of incidental expenses. The **petty cash** fund is used to pay for minor expenses, such as postage and office supplies, or to make change if a client is paying with cash. The firm's policy regarding the types of expenditures that are acceptable for petty cash reimbursements should be clear and communicated to all members of the firm.

The petty cash system is one example of **cash controls** that protect against loss, misuse, or fraud in the handling of cash.¹ It ensures that funds from petty cash will not be used inappropriately—for example, to pay for an employee's lunch because he or she was short of money that day.

Establishing a Petty Cash Account

You will need to establish an account called Petty Cash on the chart of accounts in the Current Assets category. Justin Case has given it number 105, so it appears directly below account 100 (General Bank Account), and he will create a ledger sheet in the general ledger called Petty Cash for this purpose.

Use a general journal entry to establish the petty cash fund. Justin has decided it would be reasonable to have a fund of \$50. A cheque is issued and cashed for the desired amount and the cash is placed in a safe location, usually a petty cash box with a lock on it. Figure 9.1 shows the general journal entry used to establish a petty cash fund.

| Justin Case, Paralegal General Journal | | | | | GJ6 |
|---|---|-------------------------------------|-----|-------|--------|
| Date 20** | | Description | PR | Debit | Credit |
| Jan. | 5 | Petty Cash | 105 | 50 | |
| | | General Bank Account | 100 | | 50 |
| | | <i>To establish petty cash fund</i> | | | |

FIGURE 9.1 General journal entry to establish fund

¹ Law Society of Upper Canada, *The Bookkeeping Guide for Paralegals* (Toronto: LSUC, February 2014) at 60–67.

Recording Petty Cash Entries

A system should be established requiring pre-numbered written requests (vouchers) supported by original receipts for items to be paid out of petty cash to any person. The amount on hand in the petty cash box and the sum of the receipts on hand should equal the firm's established petty cash amount.

The information from the vouchers can be transferred to an auxiliary petty cash record, but that is not essential. It is sufficient to attach the store receipt to the petty cash voucher and keep the vouchers in the petty cash box until entries are made in the general journal. Figure 9.2 shows a sample voucher used for withdrawals from petty cash.

| | | | |
|---------------------------|---------------------------------|--------------|-----|
| PETTY CASH VOUCHER NO. | 1 | | |
| AMOUNT | \$4.80 | | |
| DATE | January 8, 20** | | |
| PAID TO | Tom's Office Supply | | |
| FOR | Pens | | |
| DEBIT ACCT. NAME | Office Supplies/General Expense | ACCT. NO. | 535 |
| APPROVED BY | Judith Wells, Assistant | | |
| PAYMENT RECEIVED BY | Justin Case | | |

FIGURE 9.2 Petty cash voucher

At all times, the amount of cash plus the total amount of the vouchers should equal the total value of the fund, as shown in Figure 9.3.

| | |
|------------------------|-----------------------|
| Total paid out | \$4.80 |
| Cash in petty cash box | 45.20 |
| Total petty cash fund | <u><u>\$50.00</u></u> |

FIGURE 9.3 Balancing funds in a petty cash box

Replenishing a Petty Cash Account

In order to replenish the fund to bring the amount of petty cash back up to \$50, Judith Wells, who as Justin's assistant is responsible for completing the petty cash vouchers, must record the

expenses in the general journal and post the entries to the correct account. If she does not keep a record similar to the one in Figure 9.3, she will use the vouchers to create the general journal entries. Once the entries are made, she will write a cheque payable to herself (or to cash) for the total amount that was spent—in this case, \$23.50—and summarize the vouchers as shown in Figure 9.4. The cash will be put in the petty cash box, bringing the float up to \$50 again.

| <i>Date 20**</i> | | <i>Description</i> | <i>Account</i> | <i>Receipts</i> | <i>Paid Out</i> | <i>Balance</i> |
|----------------------|----|--|----------------|-----------------|-----------------|----------------|
| Jan. | 5 | Establish Fund | 105 | 50.00 | | 50.00 |
| | 9 | Office Supplies/General Expense | 535 | | 4.80 | 45.20 |
| | 20 | Postage Expense | 563 | | 6.00 | 39.20 |
| | 23 | Maintenance and Repairs (cleaning products) | 532 | | 8.20 | 31.00 |
| | 30 | Delivery Expense | 550 | | 4.50 | 26.50 |
| | | Total Spent \$23.50 | | | | |
| | 30 | Replenish Fund, Cheque #25 | 105 | 23.50 | | 50.00 |

FIGURE 9.4 Petty cash record tracking expenses

If Judith finds that the fund is too small and needs to be replenished too often, she can simply increase it by writing another cheque to increase the amount kept in petty cash. The journal entry would be similar to the entry that was made establishing the fund. The balance in the general ledger for petty cash usually remains constant at the amount at which the fund has been established. Figure 9.5 shows the journal entries that were made to establish the fund and then to replenish it.

| Justin Case, Paralegal General Journal | | | | | GJ6 |
|---|----|---|-----------|--------------|---------------|
| <i>Date 20**</i> | | <i>Description</i> | <i>PR</i> | <i>Debit</i> | <i>Credit</i> |
| Jan. | 5 | Petty Cash | 105 | 50.00 | |
| | | General Bank Account | 100 | | 50.00 |
| | | <i>To establish petty cash fund</i> | | | |
| | | | | | |
| Jan. | 30 | Office Supplies/General Expense | 535 | 4.80 | |
| | | Postage Expense | 563 | 6.00 | |
| | | Maintenance and Repairs (cleaning products) | 532 | 8.20 | |
| | | Delivery Expense | 550 | 4.50 | |
| | | General Bank Account | 105 | | 23.50 |
| | | <i>To replenish petty cash fund</i> | | | |

FIGURE 9.5 General journal entries to establish and replenish petty cash fund

Cash Short and Over

A firm may use the petty cash or keep a separate float in the office for the purpose of making change if a client pays with cash. This float will consist of coins and small bills, usually totaling between \$25 and \$200, depending on the size of the firm. If for some reason the cash in the petty cash box does not equal the amount of the vouchers, the amount of cash short or the amount by which the cash is over should be recorded in a general ledger account called **cash short and over**.

Banking Procedures and Handling of Money

In addition to complying with the requirements of the Law Society of Upper Canada (LSUC) for setting up trust accounts and reporting to the Law Foundation of Ontario, certain internal cash controls should be in place to help run your practice more efficiently and to reduce the risk of errors and fraud.²

When a bank account is opened with a financial institution, the bank will require that a **signature card** be filled in as a safeguard against forgery of cheques or other instruments. The bank will provide a set of cheques and a deposit book containing deposit slips to be completed for banking transactions. You are required to list each cheque you are depositing, as well as any cash, and indicate the source of the funds on the deposit slip. (See Figure 5.2 for a sample trust account deposit slip.) Deposits to the general bank account will include similar information. When the deposit is made, the person making the deposit and the bank teller will initial the deposit slip, and the teller will stamp the copy of the deposit slip as proof of the transaction. When using an automated teller to make deposits, you should be aware of all the bank's terms and the risks involved in using an ATM. Make sure a receipt of the deposit is attached to the firm's deposit book.

Withdrawals are allowed from an ATM for the general bank account, but not for trust accounts. Ensure that the signature card for the trust account has been encoded for deposits only by your financial institution.

Debit and credit cards can be used to pay for general office expenses. If a debit card is used, the amount will be deducted directly from the firm's bank account. It is important to keep receipts for any credit or debit card payments because the bank or credit card statements are not sufficient evidence of purchases for tax purposes.

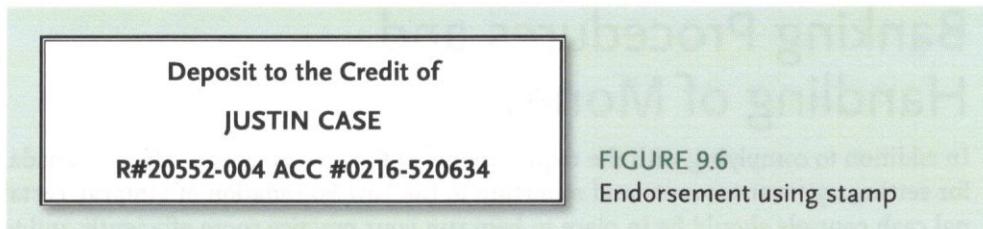
Cheque Endorsement

Endorsement refers to the signing or stamping of a cheque prior to depositing it. Cheques must be endorsed or signed by the person to whom the cheque is made payable before they can be deposited. Three common types of endorsement are as follows:

- **Blank endorsement:** Once the back of the cheque is signed by the person to whom it was made payable, it can be further endorsed and cashed by someone else. This type of endorsement can be unsafe because anyone who gets the cheque could sign the back and cash it. Very few banking institutions will allow blank endorsement.

² Ibid.

- *Full endorsement:* The person signing the back of the cheque indicates to whom the cheque may be made payable. For example, a cheque made payable to Justin Case could be endorsed by him, “Pay to the order of Judith Wells,” at which point Judith would be entitled to cash the cheque. Very few banking institutions will allow full endorsement.
- *Restrictive endorsement:* This type of endorsement is the usual method used in law firms. It specifies that the cheque must be deposited to the firm’s bank account. A stamp for endorsement purposes is often provided when a business bank account is first opened. If a stamp is not used, you will be required to endorse the back of the cheque with the account number to which the cheque is being deposited.



Cheques

Business cheques often come in a binder with a stub attached, which is used to keep track of the deposits made to the account, the cheques written, and the bank balance. The cheque stubs can be used to create journal entries. Terms you will encounter with regard to cheques include the following:

- **drawer:** The person writing the cheque (sometimes referred to as the **payor**).
- **drawee:** The financial institution on which the cheque is drawn.
- **payee:** The person to whom the cheque is written.

Many firms use accounting software that simultaneously produces cheques when a bill is being paid, records the payment in the proper journal, then posts the amount to the correct ledger account. This type of software is a great time-saver and a useful tool for keeping all records current.

Reconciling a Bank Account

Reconciliation is the process used to compare the bank statement with the balance in the bank shown in the firm’s general ledger or on its cheque stubs. Each month the firm will receive a bank statement for each of its bank accounts, setting out the following information:

- The balance at the beginning of the month
- All deposits that have been received on the account
- All cheques that have been cleared through the account (cancelled cheques)
- All bank charges for the account
- The balance at the end of the month

Banks no longer return cancelled cheques with the bank statement. Instead, for a fee, a scanned copy of the front and back of cheques is provided with the bank statement. The scanned copies show the particulars of when and where a cheque was cashed and by whom.

How to Reconcile the General and Trust Bank Balances

Although there is no formal requirement to reconcile a firm's general operating account with the bank statement, it is good business practice to ensure that your bank records and your accounting records agree.

When reconciling a bank balance, you will want to look for the following discrepancies:

- A **deposit in transit** is one that appears on the firm's records but does not appear on the bank statement. This can happen if the deposit was entered in the firm's books but no one got to the bank until the next day (which happened also to be the day after the cut-off date for the bank statement).
- An **outstanding cheque** is one written by the firm that is not shown on the bank statement because it has not been cashed by the payee. Because it was not presented to the bank for payment, the bank does not show it on the statement.
- Bank **service charges** often vary from month to month and need to be recorded in the firm's books once the amount is determined.
- An **NSF cheque** is one that was deposited but did not go through because there were insufficient funds in the account of the drawer (typically a client). When this happens, the bank notifies the firm by sending a debit memorandum indicating that the deposit has been reversed. There are usually service charges associated with any returned cheques. The firm could also have one of its own cheques returned if there were insufficient funds in the bank account to cover it when it was presented for payment. NSF cheques are sometimes referred to as "rubber cheques" because they bounce back. The service charges for writing a bad cheque are substantial.

EXAMPLE 1

The ending bank balance as shown on the general bank statement for Justin's firm at the end of November is \$5,414.31. However, the general ledger shows a balance of \$5,366.91 at the end of November, a difference of \$47.40. The goal is to find out why there is a difference and to make any corrections needed.

Financial institutions have their own format for preparing bank statements, but the information contained is similar for all banks. Figure 9.7 shows the general bank statement received by Justin Case for the month of November.

STEP 1

Complete the form on the back of the bank statement if there is one, or use a form designed by the firm for the purpose of reconciling the bank statements. The completed form used for reconciling a general bank account is shown in Figure 9.8. This form

demonstrates the reconciliation of Justin's general bank balance for the month of November.

STEP 2

Fill in the date of reconciliation at the top of the form, in Justin's case, November 30, 20**.

STEP 3

Insert the bank balance at the end of the month from the bank statement on the "Balance per Bank Statement" line and place the balance from the general ledger account on the "Balance per General Bank Account Ledger" line near the bottom of the form.

STEP 4

Compare all of the cancelled cheques on the bank statement, noting whether there are any discrepancies in the amounts shown on the bank statement and on the cheque images.

| ROYAL BANK OF MONEY | P.O. Box 5011, Station A | General Bank Account Statement | | | | | | | | |
|--|--|--|---------------------------------|------------|----------------------------|--------------|--------------------------|--------------|----------------------------------|--------------|
| Montreal, QC H3C 3B8 | | | | | | | | | | |
| Justin Case, Paralegal 135 Main Street Yourtown, Ontario K3P 1G9 | November 1, 20** to November 30, 20** Account number: 0216-520634 | | | | | | | | | |
| ACCOUNT SUMMARY FOR THIS PERIOD | | | | | | | | | | |
| <table border="1"> <tr> <td>Opening Balance on Nov. 1, 20**</td> <td>\$5,600.00</td> </tr> <tr> <td>Total Deposits and Credits</td> <td>+ \$1,272.00</td> </tr> <tr> <td>Total Cheques and Debits</td> <td>- \$1,457.69</td> </tr> <tr> <td>Closing Balance on Nov. 30, 20**</td> <td>= \$5,414.31</td> </tr> </table> | | | Opening Balance on Nov. 1, 20** | \$5,600.00 | Total Deposits and Credits | + \$1,272.00 | Total Cheques and Debits | - \$1,457.69 | Closing Balance on Nov. 30, 20** | = \$5,414.31 |
| Opening Balance on Nov. 1, 20** | \$5,600.00 | | | | | | | | | |
| Total Deposits and Credits | + \$1,272.00 | | | | | | | | | |
| Total Cheques and Debits | - \$1,457.69 | | | | | | | | | |
| Closing Balance on Nov. 30, 20** | = \$5,414.31 | | | | | | | | | |
| ACCOUNT ACTIVITY DETAILS | | | | | | | | | | |
| Date | Description | Cheques and Debits Deposits and Credits | | | | | | | | |
| Nov. 01 | Opening Balance | | | | | | | | | |
| Nov. 02 | Chq. #4 | 339.00 ✓ | | | | | | | | |
| Nov. 12 | Deposit | 700.00 ✓ | | | | | | | | |
| Nov. 14 | Chq. #5 | 303.69 ✓ | | | | | | | | |
| Nov. 15 | Deposit | 300.00 ✓ | | | | | | | | |
| Nov. 15 | Bank Charges | 15.00 o/s | | | | | | | | |
| Nov. 22 | Deposit | 272.00* | | | | | | | | |
| Nov. 22 | Chq. #6 | 800.00 ✓ | | | | | | | | |
| | Closing Balance | | | | | | | | | |
| | | 5,414.31 | | | | | | | | |

FIGURE 9.7 General bank statement

FIGURE 9.8 General Bank reconciliation

| GENERAL BANK RECONCILIATION as at November 30, 20** | | |
|---|---------|----------|
| GENERAL BANK ACCOUNT | | |
| Balance per Bank Statement | | 5,414.31 |
| Less: Outstanding Cheques (See list below) | | -113.00 |
| Plus: Outstanding Deposits | | 50.00 |
| Plus/Minus Bank Error | | 0.60 |
| Reconciled General Bank Balance at November 30, 20**: | | 5,351.91 |
| Outstanding Cheques | | |
| Cheque Number | Date | Amount |
| #7 | Nov. 6 | 22.60 |
| #8 | Nov. 15 | 90.40 |
| | | |
| | | |
| | | |
| | | |
| Total Outstanding Cheques | | 113.00 |
| BALANCE PER BOOKS | | |
| Balance per General Bank Account Ledger | | 5,366.91 |
| Add: Deposits by Bank Not Shown in Books | | -15.00 |
| Deduct: Bank Charges | | |
| Bank Errors | | |
| NSF Cheque | | |
| Adjusted Balance per Books at November 30, 20**: | | 5,351.91 |

Please check this Account Statement without delay and advise us of any error or omission within 45 days of the statement date.

Royal Bank of Money GST Registration Number: R1052481028

* Bank error; should be 272.60.

| Justin Case, Paralegal General Disbursements Journal | | | | | | | | GDJ1 |
|---|----|-------------------|---------------------------------------|-----|--------------------------------|-----------------------------------|--------------------|--------------------------------|
| Date 20** | | Method/ Ref. # | Paid To/Particulars Client/RE | PR | General Ledger Acct. Dr. | Client's General Ledger Dr. | HST Paid Dr. | General Bank Account Cr. |
| Nov. | 1 | chq #4 | Lucky Landlord, Rent Exp. | 538 | 300.00 | | 39.00 | 339.00 ✓ |
| | 4 | chq #5 | LSUC re dues Oct. – Dec. | 534 | 268.75 | | 34.94 | 303.69 ✓ |
| | 5 | chq #6 | J. Case, Drawings | 350 | 800.00 | | | 800.00 ✓ |
| | 6 | chq #7 | Quick Courier, Zimmer re Courier Exp. | 4 | | 20.00 | 2.60 | 22.60 |
| | 15 | chq #8 | Unitel re Telephone Exp. | 565 | 80.00 | | 10.40 | 90.40 |
| | 30 | | Totals | | 1,448.75 | 20.00 | 86.94 | 1,555.69 |

FIGURE 9.9 General disbursements journal checked off

STEP 5

Prepare a list of outstanding cheques. Compare the cheques shown on the bank statement and those shown in the general disbursements journal. Place a check mark next to the cheque amount on the bank statement and a check mark next to the corresponding amount in the general disbursements journal. Any cheques that are not checked off in the disbursements journal are outstanding. List these amounts on the bank reconciliation form in the “Outstanding Cheques” section. Total the outstanding cheques and place the total on the “Less: Outstanding Cheques” line as shown in Figure 9.8.

STEP 6

Look for any amounts in the Cheques and Debits column of the bank statement that did not appear in the general disbursements journal. Deduct the amount in the “Balance per Books” section of the bank reconciliation. Add lines as required.

STEP 7

Check to see if there were any cheques outstanding from the previous month that have still not cleared the bank. In Justin’s case, there are none. If there were any, you would add those cheques to the outstanding list because they are still outstanding. You might also choose to do a follow-up at that point to see why the cheques had not been cashed.

STEP 8

Using the deposit book for the general bank account (see Figure 9.10), compare all deposits on the bank

statement with those in the deposit book, checking off each item and noting any discrepancies in the amounts.

STEP 9

Outstanding deposits: Compare the total amount of the deposits on the bank statement to the total deposits shown in the general ledger for the month (Figure 9.11). In Justin’s situation, there was a deposit of \$50 made using the general journal on November 21 that does not appear on the bank statement. Enter the amount of the outstanding deposits on the “Plus: Outstanding Deposits” line on the bank reconciliation form. Add additional lines if there is more than one deposit outstanding.

STEP 10

Bank errors: These are relatively rare but do occur occasionally. Typical bank errors include an entry being made to another customer’s account or incorrectly recording the amount of a deposit or cheque. Notify the bank if it has made an error and the bank will correct it. In Justin’s case, you will note a bank error in the deposits entered on the bank statement. The records of the firm show a deposit for \$272.60 on November 22 (see Figure 9.10) but the bank recorded the amount as \$272.00. The bank account is understated by \$0.60, so the bank must add this amount to the bank balance. You should telephone the bank, ask it to make the correction, and request a bank memo confirming the correction. Place the amount on the “Plus/Minus Bank Error” line.

STEP 11

Calculate the reconciled bank balance. In Justin’s case, you arrive at a total of \$5,351.91.

| CURRENT ACCOUNT DEPOSIT SLIP | | | | | |
|--|----------------|---------|----|--|--|
| DATE 12 11 ** DD MM YR | INITIALS JC | Tellers | RW | | |
| CASH COUNT | COIN | | | | |
| X 5 | | | | | |
| X 10 | | | | | |
| X 20 | | | | | |
| X 50 | | | | | |
| X 100 | | | | | |
| Cash Subtotal \$ | | | | | |
| R#20552-004 ACC #216-520634 | | | | | |

| CURRENT ACCOUNT DEPOSIT SLIP | | | | | |
|--|----------------|---------|----|--|--|
| DATE 15 11 ** DD MM YR | INITIALS JC | Tellers | RW | | |
| CASH COUNT | COIN | | | | |
| X 5 | | | | | |
| X 10 | | | | | |
| X 20 | | | | | |
| X 50 | | | | | |
| X 100 | | | | | |
| Cash Subtotal \$ | | | | | |
| R#20552-004 ACC #216-520634 | | | | | |

| CURRENT ACCOUNT DEPOSIT SLIP | | | | | |
|--|----------------|---------|----|--|--|
| DATE 12 11 ** DD MM YR | INITIALS JC | Tellers | RW | | |
| CASH COUNT | COIN | | | | |
| X 5 | | | | | |
| X 10 | | | | | |
| X 20 | | | | | |
| X 50 | | | | | |
| X 100 | | | | | |
| Cash Subtotal \$ | | | | | |
| CREDIT ACCOUNT OF JUSTIN CASE, PARALEGAL | | | | | |

| CURRENT ACCOUNT DEPOSIT SLIP | | | | | |
|--|----------------|---------|----|--|--|
| DATE 15 11 ** DD MM YR | INITIALS JC | Tellers | RW | | |
| CASH COUNT | COIN | | | | |
| X 5 | | | | | |
| X 10 | | | | | |
| X 20 | | | | | |
| X 50 | | | | | |
| X 100 | | | | | |
| Cash Subtotal \$ | | | | | |
| CREDIT ACCOUNT OF JUSTIN CASE, PARALEGAL | | | | | |

FIGURE 9.10 Deposit slips for general bank account (continued on next page)

| CURRENT ACCOUNT DEPOSIT SLIP | | | | | | |
|--|----|-------|---------------|-----------|-----------------|-------------|
| DATE | | | INITIALS | | | |
| DD | MM | YR | Depositor | Tellers | RW | |
| 22 | 11 | ** | JC | | | |
| CASH COUNT | | | COIN | 2.60 | | |
| Zimmer | | | X 5 | | | |
| No. 4 | 7 | X 10 | | 70.00 | | |
| | | X 20 | | | | |
| | 2 | X 50 | | 100.00 | | |
| | 1 | X 100 | | 100.00 | | |
| | | | Cash Subtotal | \$ 272.60 | Cheque Subtotal | \$ 272.60 ✓ |
| R#20552-004 ACC #216-520634 CREDIT ACCOUNT OF JUSTIN CASE, PARALEGAL | | | | | | |

| CURRENT ACCOUNT DEPOSIT SLIP | | | | | | |
|--|----|-------|---------------|----------|-----------------|------------|
| DATE | | | INITIALS | | | |
| DD | MM | YR | Depositor | Tellers | RW | |
| 21 | 11 | ** | JC | | | |
| CASH COUNT | | | COIN | | | |
| Crozier | | | X 5 | | | |
| No. 5 | 1 | X 10 | | 10.00 | | |
| | 2 | X 20 | | 40.00 | | |
| | | X 50 | | | | |
| | | X 100 | | | | |
| | | | Cash Subtotal | \$ 50.00 | Cheque Subtotal | \$ 50.00 ✓ |
| R#20552-004 ACC #216-520634 CREDIT ACCOUNT OF JUSTIN CASE, PARALEGAL | | | | | | |

| CURRENT ACCOUNT DEPOSIT SLIP | | | | | | |
|--|----|----|---------------|-------------|-----------------|------------|
| DATE | | | INITIALS | | | |
| DD | MM | YR | Depositor | Tellers | RW | |
| 21 | 11 | ** | JC | | | |
| CASH COUNT | | | COIN | | | |
| Visa Vouchers | | | | | | |
| Cash Subtotal | | | | | | 272.60 |
| Cheque Subtotal | | | | | | |
| | | | Deposit Total | \$ 272.60 ✓ | Credit Subtotal | \$ 50.00 ✓ |
| R#20552-004 ACC #216-520634 CREDIT ACCOUNT OF JUSTIN CASE, PARALEGAL | | | | | | |

FIGURE 9.10 Deposit slips for general bank account (concluded)

| General Bank Account | | | | | Account No. 100 | |
|----------------------|---|------|----------|----------|-----------------|----------|
| Date 20** | Explanation | PR | Debit | Credit | Dr./Cr. | Balance |
| Oct. 30 | | GJ2 | | 500.00 | Dr. | 5,600.00 |
| Nov. 21 | | GJ3 | 50.00 | | Dr. | 5,650.00 |
| 30 | Totals from General Receipts Journal | GRJ1 | 1,272.60 | | Dr. | 6,922.60 |
| 30 | Totals from General Disbursements Journal | GDJ1 | | 1,555.69 | Dr. | 5,366.91 |

FIGURE 9.11 General bank account ledger sheet

STEP 12

The line indicating the adjusted balance per books at the end of the month must equal the reconciled general bank balance at the end of the month.

STEP 13

Bank charges or credits: Look at the bank statement to determine whether there are any bank charges that have not been recorded in your records. You will note that there is a bank charge of \$15. This amount must be deducted from the balance in the general ledger to arrive at the correct bank balance. Deduct \$15 on the bank charges line. Because these bank charges were not

recorded in the books of the firm, you must create a general journal entry and post it to the general ledger. The journal entry you would make is shown in Figure 9.12.

STEP 14

Any credits made to the account by the bank should also be recorded. For example, if the bank had paid interest on the account, you would need to enter it. In Justin's case, there weren't any credits.

STEP 15

Compute the adjusted balance at the bottom of the form per the firm's books. This amount should equal the reconciled general bank balance shown in Figure 9.8.

| Justin Case, General Journal | | | | | GJ3 |
|------------------------------|--------------------------------------|----|-------|--------|-------|
| Date 20** | Description | PR | Debit | Credit | |
| Nov. 30 | Bank Charges and Credit Card Expense | | 507 | 15.00 | |
| | General Bank Account | | 100 | | 15.00 |
| | To record bank charges for November | | | | |

FIGURE 9.12 General journal entry to record bank charges

Reconciling the Mixed Trust Bank Account

In Chapter 5 you learned how to enter data into the trust bank journal and post to the client trust and general ledgers. You will need to have the bank statement and these records on hand when preparing the bank reconciliation statement for a mixed trust account.

Bylaw 9, part V, section 18(8) of the Law Society of Upper Canada requires that the monthly bank reconciliation statement be accompanied by a monthly **trust comparison** showing the amount of money held in trust for each client. This is done by preparing

- a reconciliation of the trust bank balance; and
- a detailed listing showing the amount of money held in trust for each client and identifying each client for whom money is held in trust.

Bylaw 9, part V, section 22(2) requires that you complete the trust bank reconciliation and trust comparison by the 25th day of each month for all trust funds held in the previous month. The bank statement for the previous month is usually sent out before the end of the second week of the following month, so the 25th gives you plenty of time to prepare the reconciliation. (See Figure 9.13.) Any discrepancies discovered in the trust account records should be corrected as soon as they are discovered. Any bank or posting errors should be corrected before the month-end.

Bear in mind that you must reconcile each trust bank account operated by the firm, including interest-bearing accounts, GICs, and term deposits, every month—even if there was no activity in the account for a particular month.

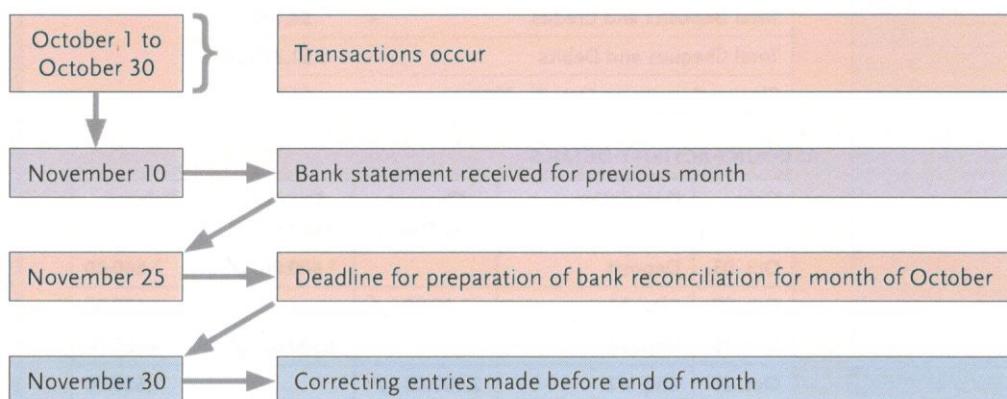


FIGURE 9.13 Timeline for mixed trust bank reconciliation

The process followed to complete the trust bank reconciliation statement is similar to reconciling the general bank account, but with a few added steps.

EXAMPLE 2

STEP 1

Compare the cheque images of the cancelled cheques with the entries shown on the trust bank statement (Figure 9.14) and note any discrepancies in the amounts shown. Verify whether the error was made by the bank or by the firm, and make any necessary corrections.

STEP 2

Outstanding cheques: Compare the cheque entries on the trust bank statement with those in the trust bank journal or deposit book. Check off all cheques that cleared the bank in your records (we have used the trust bank journal; see Figure 9.15) and on the trust bank account statement (Figure 9.14). List any outstanding cheques, including the cheque number, date of issue, and amount on the bank reconciliation, then

place the total on the “Less: Outstanding Cheques” line (Figure 9.17).

STEP 3

Outstanding deposits: Compare the entries on the bank statement with the entries in the trust bank journal or the deposit book for the trust bank account. Check off all corresponding deposits on the trust bank statement and trust bank journal, noting any discrepancies in the amounts. Note that in this example, the deposit \$1,600 is shown as two entries in the trust bank journal but as one amount on the trust bank account statement. Any deposits for the previous month that are not recorded on the bank statement should be listed by date and amount. Enter the total amount of the outstanding deposits on the “Plus: Outstanding Deposits” line on the trust bank account reconciliation (Figure 9.17).

STEP 4

List any bank errors and/or posting errors individually by date of occurrence, and provide a brief explanation. A copy of any supporting documentation, such as a bank memo, should be attached to your reconciliation.

| ROYAL BANK OF MONEY | | Trust Bank Account Statement | | | | | | | | |
|--|-------------------------------------|-------------------------------------|---------------------------------|----------|----------------------------|--------------|--------------------------|--------------|----------------------------------|--------------|
| P.O. Box 5011, Station A Montreal, QC H3C 3B8 | | | | | | | | | | |
| Justin Case, Paralegal, Trust 135 Main Street Yourtown, Ontario K3P 1G9 | October 1, 20** to October 31, 20** | | | | | | | | | |
| | Account number: 0216-520635 | | | | | | | | | |
| ACCOUNT SUMMARY FOR THIS PERIOD | | | | | | | | | | |
| <table border="1"> <tr> <td>Opening Balance on Oct. 1, 20**</td> <td>\$0.00</td> </tr> <tr> <td>Total Deposits and Credits</td> <td>+ \$4,100.00</td> </tr> <tr> <td>Total Cheques and Debits</td> <td>- \$2,820.00</td> </tr> <tr> <td>Closing Balance on Oct. 31, 20**</td> <td>= \$1,280.00</td> </tr> </table> | | | Opening Balance on Oct. 1, 20** | \$0.00 | Total Deposits and Credits | + \$4,100.00 | Total Cheques and Debits | - \$2,820.00 | Closing Balance on Oct. 31, 20** | = \$1,280.00 |
| Opening Balance on Oct. 1, 20** | \$0.00 | | | | | | | | | |
| Total Deposits and Credits | + \$4,100.00 | | | | | | | | | |
| Total Cheques and Debits | - \$2,820.00 | | | | | | | | | |
| Closing Balance on Oct. 31, 20** | = \$1,280.00 | | | | | | | | | |
| ACCOUNT ACTIVITY DETAILS | | | | | | | | | | |
| Date | Description | Cheques and Debits | Deposits and Credits | Balance | | | | | | |
| Oct. 03 | Deposit | | 1,600.00 ✓ | 1,600.00 | | | | | | |
| Oct. 08 | Chq. #1 | 20.00 ✓ | | 1,580.00 | | | | | | |
| Oct. 16 | Deposit | | 2,500.00 ✓ | 4,080.00 | | | | | | |
| Oct. 30 | Chq. #2 | 2,500.00 ✓ | | 1,580.00 | | | | | | |
| | Closing Balance | | | 1,580.00 | | | | | | |

Please check this Account Statement without delay and advise us of any error or omission within 45 days of the statement date.
Royal Bank of Money GST Registration Number: R1052481028

FIGURE 9.14 Trust bank account statement

| Justin Case, Paralegal | | | | | | TJ1 |
|-------------------------------|-----|-----------------------------------|---------------------|---------------------------|---------------------------------|---------------------------|
| Trust Bank Journal | | | | | | |
| <i>Date</i> <i>20**</i> | | <i>Received From/ Paid To</i> | <i>File No.</i> | <i>Client/Description</i> | <i>Method of Payment</i> | <i>Trust Bank Account</i> |
| Dr. | Cr. | | | | | |
| Oct. 2 | | Rec. Cliff Howes | 1 | Cliff Howes/Retainer | Money Order | 1,000 ✓ |
| | 3 | Pd. Deliveries Inc. | 1 | Cliff Howes/Courier | Chq. #1 | 20 ✓ |
| | 3 | Rec. Frank Jones | 2 | Frank Jones/Retainer | Credit Card \$500 Cash \$100 | 600 ✓ |
| | 15 | Rec. James Settlor | 1 | Cliff Howes/Settlement | Bank Draft | 2,500 ✓ |
| | 16 | Pd. Cliff Howes | 1 | Cliff Howes/Settlement | Chq. #2 | 2,500 ✓ |
| | 20 | Pd. Minister of Finance | 2 | Jones/Payment of Fine | Chq. #3 | 300 o/s |
| | | | | | | |
| | 31 | Totals | | | | 4,100 2,820 |
| | | | | | | (115) (115) |

FIGURE 9.15 Trust bank journal

STEP 5

Calculate the reconciled mixed trust balance on the bank reconciliation form. Enter this amount on the "Reconciled Mixed Trust Balance" line.

STEP 6

Client trust listing:

- Prepare a list of client balances from the client trust ledgers, identifying the clients for whom you held funds in trust at the end of the previous month.
- List the client names with the balance in the trust accounts, including the last activity date, to help you monitor inactive or dormant accounts.
- Total the client trust listing as shown in Figure 9.16. Enter the information from the client trust listing in the "Client Trust Listing" section, as shown in Figure 9.17.

STEP 7

Trust comparison: Compare the reconciled trust bank balance (Figure 9.17) with the client trust listing total (Figure 9.16). The two amounts should be equal. If the amounts are not the same, you must find and correct the discrepancy.

| Justin Case, Paralegal TRUST BANK RECONCILIATION as at October 31, 20** | | |
|--|---------------------------|---------------|
| TRUST BANK ACCOUNT | | |
| Balance per Bank Statement | 1,580 | |
| Less: Outstanding Cheques (See list below) | 300 | |
| Plus: Outstanding Deposits | | |
| List: | | |
| Plus/Minus Bank Error | | |
| Reconciled Mixed Trust Balance at October 31, 20** | 1,280 | |
| Outstanding Cheques | | |
| Cheque Number | Date | Amount |
| Chq. #3 | Oct. 20, 20** | 300 |
| Total Outstanding Cheques | | 300 |
| CLIENT TRUST LISTING (from clients' trust ledger balances) as at October 31, 20** | | |
| File Name | Last Activity Date | Amount |
| 1. HOWES, Cliff re Small Claims Court | Oct. 15, 20** | 980 |
| 2. JONES, Frank re Highway Traffic Act | Oct. 9, 20** | 300 |
| Total Trust Liabilities to Clients at October 31, 20** | | 1,280 |
| TRUST COMPARISON as at October 31, 20** | | |
| Reconciled Trust Bank Balance | 1,280 | |
| Total of unexpected balances per client's trust ledger | 1,280 | |

FIGURE 9.17 Trust bank account reconciliation

| Justin Case, Paralegal List of Balances Owed to Clients October 31, 20** | | | |
|--|-------------------------------------|---------------------------|---------------------|
| File No. | Account | Last Activity Date | Balance Owed |
| 1 | HOWES, Cliff re Small Claims Court | Oct. 15 | 980.00 |
| 2 | JONES, Frank re Highway Traffic Act | Oct. 9 | 300.00 |
| Total Owed to Clients | | | 1,280.00 |

FIGURE 9.16 Client trust listing

Reviewing the Trust Bank Reconciliation

When you review the monthly trust comparisons you should:

- Ensure that the bank reconciliations are prepared before the 25th of the month.
- List items that were reconciled, giving a clear explanation that can be traced to the bank statement. You will be required to provide this information to the LSUC when you file your annual report.
- If you notice cheques that have remained uncashed for more than two months, follow up to see why they were not cashed. You might need to put a stop payment on a cheque if it has been lost, and a replacement cheque will then need to be prepared.
- If a cheque is stale-dated (more than six months old), a stop payment should be placed on it. If this is done, a reversing entry will be required placing the funds back in the client's trust ledger account. You will need to inquire as to why it was not cashed and provide a replacement cheque, if necessary.
- Ensure that the balance in each client's trust ledger is correct. If an amount was entered in the wrong client's account, this will not be revealed by the bank reconciliation process. The paralegal reviewing the client listing should notice if an amount shown on a client's trust ledger appears to be incorrect.
- Once work on a file has been finished, an invoice should be sent to the client. If funds remain in trust, a refund should also be sent.
- If the bank is taking bank charges out of the trust account, make sure that the bank is contacted and an arrangement is made for all bank charges to be taken out of the general bank account.

Maintenance and Retention of General and Trust Records

The financial records required to be maintained for general and trust accounts may be entered and posted by hand or by mechanical or electronic means, but if the records are entered and posted by hand, this should be done in ink.³ If electronic records are maintained, a licensee must ensure that a paper copy of the record can be produced promptly on the LSUC's request.⁴ If records are kept electronically, it is important to back them up frequently in case of a computer crash. Bylaw 9 also requires that trust financial records be entered and posted so that they are current at all times.⁵

General Bank Records

The financial records required by the LSUC related to general bank accounts must be kept for at least the six-year period immediately preceding the licensee's most recent fiscal year-end.⁶ These records include the fees book, general receipts and disbursements journals, general

³ Bylaw 9, part V, s 21(1).

⁴ Bylaw 9, part V, s 21(2).

⁵ Bylaw 9, part V, s 22(1).

⁶ Bylaw 9, part V, s 23(1).

ledgers, and all related bank records such as passbooks, cancelled cheques, and bank reconciliations. If money is received in cash, a book of duplicate receipts must be kept for the most recent six full years plus the current year.

Trust Bank Records

The financial records related to trust accounts required by the LSUC must be kept for 10 years plus the current year.⁷ These records include the trust bank journal, trust transfer journal, the monthly trust reconciliation, valuable property record, and all bank passbooks, cashed cheques, signed electronic trust transfer requisitions, and printed confirmations of electronic transfers.

Dormant Accounts

Dormant accounts are funds held in trust on behalf of a client that are unclaimed. Perhaps a client paid a retainer and then disappeared, and you have been unable to contact her over a period of two years. Section 59.6 of the *Law Society Act* permits a licensee to apply for permission to transfer such funds to the LSUC if the client cannot be located despite reasonable efforts after two years, or if the lawyer or licensed paralegal is unable to determine who is entitled to the money. The procedure for transferring such moneys to the LSUC is set out in bylaw 10.

Documentation for a CRA Audit

Regardless of whether your business is organized as a sole proprietorship, partnership, or corporation, there is a high likelihood that it will be audited by the Canada Revenue Agency (CRA) at some point.

The CRA auditor can examine books and records, documents, previous tax returns, and business records including ledgers, journals, invoices, receipts, contracts, and bank statements with bank reconciliations. Your personal records such as bank statements, mortgage documents, and credit card statements, as well as personal or business records of a spouse or family member, may be included. Adjustments made by your bookkeeper or accountant to arrive at income for tax purposes can also be reviewed.

TAX TIP

⁷ Bylaw 9, part V, s 23(2).

CHAPTER SUMMARY

The objective of this chapter has been to outline the obligations of a licensee with respect to reviewing the accounting records at the end of each month to ensure that the requirements of the Law Society of Upper Canada are being met. Reconciling the general bank account promptly each month is part of the month-end process before completing your financial statements. If the duties of operating and maintaining bank accounts are delegated to others, the reconciliation will enable the licensee to evaluate whether tasks are being performed correctly and in compliance with LSUC rules. Any errors or differences identified by the reconciliation may alert you to a need for greater supervision of employees who may need additional training.

KEY TERMS

- cash controls, 220
- cash short and over, 223
- deposit in transit, 225
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- drawee, 224
- drawer, 224
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- NSF cheque, 225
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- reconciliation, 224
- service charges, 225
- signature card, 223
- trust comparison, 230

FURTHER READING

Canadian Bankers Association (CBA), "Cheques—What You Need to Know," online: <<http://www.cba.ca/en/consumer-information/40-banking-basics/584-cheques-what-you-need-to-know>>. See the section "Cheque Cashed by a Different Individual (Counter-Signed Cheques)." The CBA advises consumers, "Check with your financial institution to find out if counter-signed cheques are accepted."

Law Society of Upper Canada, "Reconciling a Trust Account," online: <<http://www.lsuc.on.ca/For-Lawyers/Manage-Your-Practice/Financial-Management/Billing/Collections/Trust-Accounts/Reconciling-a-Trust-Account>>.

Law Society of Upper Canada, *The Bookkeeping Guide for Paralegals* (Toronto: LSUC, February 2014) at 71–72 ("Monthly Financial Review Checklist"), online: <http://www.lsuc.on.ca/uploadedFiles/PDC/Practice_Review/Paralegal Bookkeeping Guide - February 2014.pdf>.

PUT IT INTO PRACTICE

Case Example: Trust Bank Account Reconciliation

Ann Litigate compared her trust bank account statement against her trust bank journal and noticed a discrepancy. Review the following trust receipts and disbursements journals, trust bank account ledger, and trust bank statement for Ann Litigate for the month of May 20** and advise her on how to prepare a bank reconciliation by answering the following questions.

- a. Are there any outstanding deposits for the period?
- b. Are there any outstanding cheques for the period?
- c. Are there any withdrawals made from the trust bank account for such items as service and bank charges that do not appear in the journals?
- d. What is the bank balance at the end of the month shown on the trust bank statement?
- e. What is the bank balance shown in the trust bank account ledger?
- f. What needs to be done to reconcile the two amounts?
- g. What should the total of the client trust ledgers and the reconciled bank balance be?

| Trust Receipts Journal | | | | | TRJ1 |
|-------------------------------|----|----------------------|---------------------|------------------------------|---------------|
| <i>Date 20**</i> | | <i>Received from</i> | <i>Description</i> | <i>Method of Payment</i> | <i>Amount</i> |
| May | 1 | S. Bailey | S. Bailey—Retainer | Chq. #058 | 1,500 |
| | 12 | C. Smythe | C. Smythe—Retainer | Chq. #021 | 1,000 |
| | 15 | D. Pitt | D. Pitt—Retainer | Chq. #002 | 1,750 |
| | 28 | R. Park, Defendant | F. Moore—Settlement | Chq. #011 | 5,000 |
| | 30 | K. Thomas | K. Thomas—Retainer | Chq. #095 | 2,000 |
| | | | | Total | 11,250 |
| | | | | | (115) |

| Trust Disbursements Journal | | | | | TDJ1 |
|------------------------------------|----|----------------|--------------------------------------|------------------------------|---------------|
| <i>Date 20**</i> | | <i>Paid to</i> | <i>Description</i> | <i>Method of Payment</i> | <i>Amount</i> |
| May | 5 | Ann Litigate | F. Moore—Courier charges recoverable | Trust Chq. #0023 | 40 |
| | 12 | Ann Litigate | B. Daley—Paid invoice #350 | Trust Chq. #0024 | 1,100 |
| | 30 | F. Moore | F. Moore—Settlement | Trust Chq. #0025 | 5,000 |
| | | | | Total | 6,140 |
| | | | | | (115) |

| Trust Bank Account | | | | | | Account No. 115 | |
|--------------------|----|----------------------|-----|--------|--------|-----------------|---------|
| Date 20** | | Description | PR | Debit | Credit | Dr./Cr. | Balance |
| May | 1 | Opening Balance | | | | | 0 |
| | 30 | Trust Totals for May | TJ1 | 11,250 | 6,140 | Dr. | 5,110 |

| ABC Credit Union Trust Bank Statement May 1 to May 30, 20** | | | | | | | |
|---|----|--|------|-----------------------------|----------------------|----------|--|
| Date 20** | | Description | Ref. | Debit (With- drawals) | Credit (Deposits) | Balance | |
| | | BALANCE FORWARD | | | | 0 | |
| May | 1 | Deposit | | | \$1,500 | \$1,500 | |
| | 5 | Cheque | 23 | \$40 | | \$1,460 | |
| | 12 | Deposit | | | \$1,000 | \$2,460 | |
| | 15 | Cheque | 24 | \$1,100 | | \$1,360 | |
| | 15 | Deposit | | | \$1,750 | \$3,110 | |
| | 28 | Deposit | | | \$5,000 | \$8,110 | |
| | 30 | Deposit | | | \$2,000 | \$10,110 | |
| | | | | | | | |
| | | Total Debits (Withdrawals) and Credits (Deposits) | | \$1,140 | \$11,250 | | |
| | | Closing Balance | | | | \$10,110 | |

REVIEW QUESTIONS

True or False

- 1. Bylaw 9 of the Law Society of Upper Canada requires that the general bank ledger be reconciled by the 25th day of the following month after the date of the bank statement.
- 2. The petty cash account balance is changed only when establishing, increasing, or decreasing the petty cash balance limit.
- 3. Outstanding cheques are added to the bank statement balance.
- 4. "Deposit to the Credit of" is an example of a full endorsement.
- 5. Deposits in transit are added to the bank statement balance.
- 6. Adjustments to the bank statement balance require an adjustment entry in the general journal.
- 7. After preparing the trust bank reconciliation, any bank or posting errors should be corrected before the end of the month in which the most recent bank statement is received.
- 8. The ending balances on the general bank ledger or trust bank ledger must equal the ending bank statement balance in order for the records to be reconciled.
- 9. Petty cash is an expense account reflected on the income statement.
- 10. The value of the petty cash account is equal to the petty cash voucher total and the remaining cash balance in the petty cash box.

Short Answer

Give a full answer for each question:

1. Discuss the following statement: "It is important to keep receipts for any credit or debit card payments."
2. What are some of the goals of internal controls for a business? What are some key considerations for paralegals? (See Law Society of Upper Canada, *The Bookkeeping Guide for Paralegals*, in Further Reading.)
3. What are the record-keeping requirements for general bank account records and trust bank account records, as set out in bylaw 9? For how long must the records be kept?
4. What are the seven steps involved in reconciling the trust bank account against the trust bank ledger?

PRACTICE EXERCISES

Practice Exercise 9.1

Ann Litigate advises her administrative assistant to establish a petty cash fund with a limit of \$150 for minor and day-to-day expenses. Ann also advises the administrative assistant that, as custodian of the petty cash fund, she is to replenish the petty cash on a monthly basis.

- Prepare the general journal entry to show the establishment of the account (January 1, 20**).
- Based on the following petty cash expenses for the month, prepare the petty cash record tracking expenses:

Jan. 6 Courier charges, Voucher #1 (\$15)
 Jan. 10 Postage, Voucher #2 (\$10.65)
 Jan. 12 Parking, Voucher #3 (\$12.75)
 Jan. 17 Office supplies, miscellaneous, Voucher #4 (\$33.50)
 Jan. 23 Courier charges, Voucher #5 (\$18)
 Jan. 27 Postage, Voucher #6 (\$10.65)
 Jan. 30 Parking, Voucher #7 (\$12.75)

- Prepare the journal entries showing the expenses from the petty cash record tracking expenses and the replenishment of the petty cash fund (January 31, 20**).

PRACTICE
EXCEL

| Ann Litigate Paralegal Services General Journal | | | | | GJ3 | |
|--|-------------|--|--|----|-------|--------|
| Date 20** | Description | | | PR | Debit | Credit |
| | | | | | | |
| | | | | | | |

HINT

Check and Balance Petty Cash Fund
 The amount of cash on hand plus the amount of all petty cash vouchers is equal to the total value of the fund.

| | |
|------------------------|------------------------|
| Total paid out | \$113.30 |
| Cash in petty cash box | <u>36.70</u> |
| Total petty cash fund | <u><u>\$150.00</u></u> |

Practice Exercise 9.2

Review and compare Ann Litigate's general bank account ledger for January 20** and the general bank statement for the month-end January 31.

- Record and note any differences and discrepancies.
- Prepare the bank reconciliation using the worksheet provided.
- Prepare adjusting journal entries in the general journal in respect of any corrections.

| General Bank Account | | | | | Account No. 100 | |
|-----------------------------|--|-----------|--------------|---------------|------------------------|----------------|
| <i>Date 20**</i> | <i>Explanation</i> | <i>PR</i> | <i>Debit</i> | <i>Credit</i> | <i>Dr./Cr.</i> | <i>Balance</i> |
| Jan. 1 | Opening Balance | GJ2 | | | Dr. | 6,300.00 |
| 1 | Cheque #11 | GJ2 | | 1,500.00 | Dr. | 4,800.00 |
| 20 | Transfer from Trust re Invoice #14-201 | GJ2 | 800.00 | | Dr. | 5,600.00 |
| 30 | Cheque #12 | GJ2 | | 1,300.00 | Dr. | 4,300.00 |
| 31 | Cheque #13 | GJ2 | | 118.73 | Dr. | 4,181.27 |
| 31 | Cheque #14 | GJ2 | | 450.00 | Dr. | 3,731.27 |

| Bank Statement (General Bank Account) | | | | | | |
|--|--------------------------|------------------|--------------|---------------|----------------|------------|
| Ann Litigate Paralegal Services | | | | | | |
| 11 Any Street, Ottawa, ON K1A 0B0 | | | | | | |
| ABC Bank | | | | | | |
| 1000 Front St. | | | | | | |
| Ottawa, ON | | | | | | |
| Jan. 1 – Jan. 31, 20** | | | | | | |
| <i>Date</i> | <i>Description</i> | <i>Reference</i> | <i>Debit</i> | <i>Credit</i> | <i>Balance</i> | |
| December 31, 20** | Balance Forward | | | | Cr. | \$6,300.00 |
| January 1, 20** | Cheque #11 | 200 | 1,500.00 | | Cr. | \$4,800.00 |
| January 3, 20** | Deposit—Cheque | 121 | | 1,000.00 | Cr. | \$5,800.00 |
| January 19, 20** | ATM W/D | 004430 | 11.50 | | Cr. | \$5,788.50 |
| January 20, 20** | TFR FR 10002 | JXY01 | | 800.00 | Cr. | \$6,588.50 |
| January 30, 20** | Cheque #12 | 203 | 1,300.00 | | Cr. | \$5,288.50 |
| January 31, 20** | Service Charge | | 23.00 | | Cr. | \$5,265.50 |
| | Total Debits and Credits | | \$2,834.50 | \$1,800.00 | | |
| | Closing Balance | | | | | \$5,265.50 |

Note re bank statement: Debit (Withdrawal); Credit (Deposit)

| | | |
|---|-------------|---------------|
| Ann Litigate Paralegal Services GENERAL BANK RECONCILIATION as at January 31, 20** | | |
| GENERAL BANK ACCOUNT | | |
| Balance per Bank Statement | | |
| Less: Outstanding Cheques (See list below) | | |
| Plus: Outstanding Deposits | | |
| Plus/Minus Bank Error | | |
| Reconciled General Bank Balance at January 31, 20** | | |
| Outstanding Cheques | | |
| Cheque Number | Date | Amount |
| | | |
| | | |
| | | |
| | | |
| Total Outstanding Cheques | | |
| BALANCE PER BOOKS | | |
| Balance per General Bank Account Ledger | | |
| Add: Deposits by Bank Not Shown in Books | | |
| Deduct: Bank Charges | | |
| ATM Withdrawals | | |
| Bank Errors | | |
| NSF Cheque | | |
| Adjusted Balance per Books at January 31, 20** | | |

PRACTICE
EXCEL

| Ann Litigate Paralegal Services General Journal | | | | | GJ2 | |
|--|-------------|--|--|----|-------|--------|
| Date 20** | Description | | | PR | Debit | Credit |
| | | | | | | |
| | | | | | | |

Practice Exercise 9.3

Review and compare Ann Litigate's trust bank account ledger for January 20** and the trust bank statement for the month-end January 31.

- Record and note any differences and discrepancies. Note that an error was made by the bookkeeper when cheque #0138 was entered. The amount should have been entered as \$260 instead of \$280. Remember that the service charge should not appear in the trust bank account.
- Prepare the bank reconciliation using the worksheet provided.
- Compare the reconciled trust bank balance with the client trust listing total.
- Prepare the adjusting journal entry in the trust bank journal provided in respect of any corrections.

| Trust Bank Account | | | | | Account No. 115 | | |
|---------------------------|----|---|-----------|--------------|------------------------|----------------|----------------|
| <i>Date 20**</i> | | <i>Explanation</i> | <i>PR</i> | <i>Debit</i> | <i>Credit</i> | <i>Dr./Cr.</i> | <i>Balance</i> |
| Jan. | 1 | Opening Balance | TJ2 | | | Dr. | 10,000.00 |
| | 1 | Retainer Received— A. Paulo, Cheque #11225 | TJ2 | 1,500.00 | | Dr. | 11,500.00 |
| | 3 | Refund to Client from Trust— B. Saul, Cheque #0138 | TJ2 | | 280.00 | Dr. | 11,220.00 |
| | 20 | Transfer from Trust re Invoice #14-201 | TJ2 | | 800.00 | Dr. | 10,420.00 |
| | 30 | Retainer Received— C. Charles, Cheque #002 | TJ2 | 2,000.00 | | Dr. | 12,420.00 |

| Bank Statement (Trust Bank Account) | | | | | | |
|--|--------------------------|------------------|--------------|---------------|----------------|-------------|
| Ann Litigate Paralegal Services | | | | | | |
| 11 Any Street, Ottawa, ON K1A 0B0 | | | | | | |
| ABC Bank | | | | | | |
| 1000 Front St. | | | | | | |
| Ottawa, ON | | | | | | |
| Jan. 1 – Jan. 31, 20** | | | | | | |
| <i>Date</i> | <i>Description</i> | <i>Reference</i> | <i>Debit</i> | <i>Credit</i> | <i>Balance</i> | |
| December 31, 20** | Balance Forward | | | | Cr. | \$10,000.00 |
| January 1, 20** | Deposit—Cheque | 11225 | | 1,500.00 | Cr. | \$11,500.00 |
| January 3, 20** | Cheque | 0138 | 260.00 | | Cr. | \$11,240.00 |
| January 20, 20** | TFR FR 10002 | JXY01 | 800.00 | | Cr. | \$10,440.00 |
| January 31, 20** | Service Charge | | 23.00 | | Cr. | \$10,417.00 |
| | | | | | | |
| | Total Debits and Credits | | \$1,083.00 | \$1,500.00 | | |
| | Closing Balance | | | | | \$10,417.00 |

Note re bank statement: Debit (Withdrawal); Credit (Deposit)

| Ann Litigate Paralegal Services List of Balances, Trust Funds Owed January 31, 20** | | |
|--|---------------------------|---------------------|
| <i>File No./Account Name</i> | <i>Last Activity Date</i> | <i>Balance Owed</i> |
| File No. 101, Moore, C. | Nov. 15, 20** | 2,100.00 |
| File No. 102, Abernathy, L. | Dec. 1, 20** | 1,700.00 |
| File No. 103, Pasec, S. | Dec. 15, 20** | 3,200.00 |
| File No. 104, Smith, A.L. | Dec. 29, 20** | 3,000.00 |
| File No. 105, Saul, B. | Jan. 3, 20** | (260.00) |
| File No. 106, Reuter, D. | Jan. 20, 20** | (800.00) |
| File No. 107, Charles, C. | Jan. 30, 20** | 2,000.00 |
| File No. 108, Paulo, A. | Jan. 1, 20** | 1,500.00 |
| Total Trust Funds Owed | | \$12,440.00 |

| Ann Litigate Paralegal Services Trust Bank Journal | | | | | | TJ2 |
|---|---------------------------|-------------|--------------------|----------------------|--------------------|-----|
| Date 20** | Received From/ Paid To | File No. | Client/Description | Method of Payment | Trust Bank Account | |
| | | | | | Dr. | Cr. |
| | | | | | | |

PRACTICE
EXCEL

